

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Gogebic Range Water Authority	County Gogebic
Audit Date 6/30/04	Opinion Date 6/8/05	Date Accountant Report Submitted to State: 8/25/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) David Traczyk CPA			
Street Address 327 Silver Street		City Hurley	State WI
		ZIP 54534-1255	
Accountant Signature <i>David Traczyk, CPA</i>			Date 8/25/05

GOGEBIC RANGE WATER AUTHORITY
RAMSAY, MICHIGAN
AUDITED FINANCIAL STATEMENTS

June 30, 2004

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INDEPENDENT AUDITOR'S REPORT

Chairman and Members of the Board
Gogebic Range Water Authority
Ramsay, Michigan

I have audited the accompanying basis financial statements of Gogebic Range Water Authority (the "Authority"), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note A the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statement—and Management's Discussion and Analysis—for State and Local Governments*, as amended and interpreted, as of June 30, 2004. The Authority has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gogebic Range Water Authority as of June 30, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* I have also issued my report dated June 8, 2005, on my consideration of the Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of Gogebic Range Water Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

June 8, 2005

GOGEBIC RANGE WATER AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 146,925
Accounts receivable, net	2,284
Due from other governments	<u>14,058</u>

Total current assets 163,267

NONCURRENT ASSETS

RESTRICTED ASSETS

Cash and cash equivalents	<u>385,770</u>
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Total restricted assets 385,770

CAPITAL ASSETS

Property, plant and equipment	11,635,055
Less accumulated depreciation	<u>(459,087)</u>

Total capital assets 11,175,968

OTHER ASSETS

Bond issue costs, net	<u>62,570</u>
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Total other assets 62,570

Total noncurrent assets 11,624,308

Total assets \$ 11,787,575

See accompanying notes to basic financial statements.

GOGEBIC RANGE WATER AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2004

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 5,472
Accounts payable - construction	<u>197,391</u>

Total current liabilities	202,863
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CURRENT LIABILITIES PAYABLE
FROM RESTRICTED ASSETS

Accounts payable - construction	246,272
Accrued interest	17,916
Notes and bonds payable	<u>49,000</u>

Total current liabilities payable from restricted assets	313,188
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NONCURRENT LIABILITIES

Accounts payable - construction	220,627
Notes and bonds payable, net	<u>3,994,000</u>

Total noncurrent liabilities	<u>4,214,627</u>
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Total liabilities	<u>4,730,678</u>
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NET ASSETS

Invested in capital assets, net of related debt	6,450,762
Restricted for debt service	70,593
Restricted for capital projects	315,177
Unrestricted	<u>220,365</u>

Total net assets	<u><u>\$ 7,056,897</u></u>
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See accompanying notes to basic financial statements.

GOGEBIC RANGE WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended June 30, 2004

Operating revenues:	
Water sales	\$ 112,248
Services to member municipalities	252,107
Total operating revenues	364,355
Operating expenses:	
Administrative wages	16,793
Other administration	4,588
Insurance	6,610
Professional fees	6,341
Travel	4,562
Repairs and maintenance	1,857
Water purchased	33,029
Depreciation	159,662
Total operating expenses	<u>233,442</u>
Operating Income (Loss)	130,913
Non-operating revenues (expenses):	
Interest income	3,657
Amortization of debt expense	(1,641)
Interest expense	<u>(123,750)</u>
Total non-operating revenue (expenses)	<u>(121,734)</u>
Net Income Before Contributions	9,179
Capital contributions	<u>1,957,800</u>
Change in Net Assets	1,966,979
Net Assets at Beginning of Year	<u>5,089,918</u>
Net Assets at End of Year	<u><u>\$ 7,056,897</u></u>

See accompanying notes to basic financial statements.

GOGEBIC RANGE WATER AUTHORITY
STATEMENT OF CASH FLOWS
Year ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$371,398
Payments to suppliers	(61,361)
Payments to employees	<u>(16,793)</u>

Net Cash Provided (Used) by Operating Activities	293,244
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	(2,255,043)
Capital contributions	1,957,800
Proceeds from bonds payable	512,000
Principal paid on notes and bonds payable	(46,000)
Interest paid on notes and bonds payable	<u>(150,889)</u>

Net Cash Provided (Used) for Capital and Related Financing Activities	17,868
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received on investments	3,657
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Net Cash Provided (Used) by Investing Activities	<u>3,657</u>
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Net Increases (Decrease) in Cash and Cash Equivalents	314,769
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Balances - Beginning of Year	217,926
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Balances - End of Year	\$532,695
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RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED
BY OPERATING ACTIVITIES:

Operating income (loss)	\$130,913
Adjustments to reconcile operating income (loss) to net cash provided (Used) by operating activities:	
Depreciation	159,662
Change in assets and liabilities:	
Accounts receivable	7,043
Accounts payable	<u>(4,374)</u>

Net Cash Provided (Used) by Operating Activities	<u><u>\$293,244</u></u>
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Noncash investing, capital and financing activities:

Construction financed by accounts payable	\$664,290
Capitalized interest accrued on plant construction	17,916

See accompanying notes to basic financial statements.

GOGEBIC RANGE WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Gogebic Range Water Authority (the Authority) was formed on December 1, 1977, as a municipal authority under the provisions of Act 233 of Public Acts of Michigan, 1955, as amended. The municipalities creating the Authority were the Cities of Bessemer and Wakefield, Michigan, Charter Township of Ironwood, and the Townships of Bessemer and Wakefield, Michigan. The Authority was formed for the purpose of developing a water source for its members and others.

In addition to providing water to its members, the Authority also sells water to other customers at agreed-upon rates.

In evaluating how to define the Authority, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic – but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing Authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its constituents, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities.

Based upon the application of these criteria, the basic financial statements of the Authority contain all the funds and account groups controlled by the Authority's Board as no other entity meets the criteria to be considered a component unit of the Authority nor is the Authority a component unit of another entity.

Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America. The Authority applies all relevant Government Accounting Standards Board (GASB) pronouncements. As enterprise funds, the Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The Authority has not adopted GASB Statement No. 20.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accrual basis of accounting is used by the Authority. Under the accrual basis, revenues are recognized when earned and expenses are recorded when incurred. The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Operating revenues and expenses are distinguished from nonoperating items in the statement of revenues, expenses and changes in net assets. Operating revenues and expenses result from providing services in connection with the Authority's principal ongoing operations. Principal operating revenues of the Authority are charges to customers for water use and charges to member municipalities to recover the costs within the individual municipalities. The charges to recover the financing costs are allocated to the member municipalities based on construction cost allocations. Operating expenses include the cost of providing water, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues of the Authority are grants and investment income. The principal nonoperating expenses of the Authority include interest expense.

Capital grant funding represents amounts received from capital project grants which are restricted to capital acquisition or construction. The Authority recognizes capital grant funding when the grants are earned which is generally when the related capital expenditure is made.

Deposits and Investments

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Local Unit Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the three highest classifications by not less than two standard ratings services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Local Unit's deposits are in accordance with statutory authority.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables

Accounts receivable have been shown net of an allowance for uncollectible accounts. As of June 30, 2004, all accounts were deemed collectible and no allowance had been recorded.

The amount due from other governments consists of charges to member municipalities for administration and financing costs. All amounts have been determined to be collectible and no allowance has been recorded.

The Authority does not accrue unbilled service at the end of the year with respect to service provided but not billed at such date.

Capital Assets

Capital assets are generally defined by the Authority as assets with an initial, individual cost of more than \$1,000. Maintenance and repair costs are charged to expense as incurred.

Capital assets are reported at cost or the fair market value at the time of contribution to the Authority. Major outlays for plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the plant constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

Source of supply	40 - 100
Pumping	20 - 100
Water treatment	40
Transmission and distribution	50 - 100
General	5 - 40

Bond Issue Costs

Bond issue costs are amortized to expense over the life of the related indebtedness.

Compensated Absences

The Authority has one employee that receives a salary. There are no accrued vacation or sick leave costs.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bond's mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Accounting Change

Effective July 1, 2003, the Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Significant changes to the Authority's financial statements as a result of GASB No. 34 are as follows:

Management Discussion and Analysis – provides analysis of the Authority's overall financial position and results of operations as reported by the Authority's management. However, the Authority did not provide the data for the current year.

Capital Contributions – are accounted for as a revenue of the Authority. Previously, capital contributions were accounted for as an increase of Fund Equity.

Depreciation – is accounted for as an operating expense. Previously, depreciation on assets acquired by grants was accounted for as a reduction of contributed capital rather than as a decrease in retained earnings.

Net Assets – are accounted for as one of the following three categories: invested in capital assets, restricted and unrestricted. Previously, fund equity was accounted for as contributed capital and retained earnings.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE B – CASH AND INVESTMENTS

All deposits were made in a bank authorized by the Board of Directors and under authority of State of Michigan deposit laws. Operating cash balances were \$146,925 at June 30, 2004. All deposits were made in financial institutions whose deposits are covered by federal depository insurance. For the purpose of the statement of cash flows, the Authority considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. Investing is performed in accordance with investment policies complying with state statutes.

Restricted cash consisted of the following:

	<u>June 30, 2004</u>
1. Construction Account, these are checking accounts used to receive loan and grant proceeds to be used solely to pay construction costs: Phase II	\$ 246,326
2. Bond Reserve Account, These savings accounts are set aside in accordance with terms of the bond issues. The funds in these accounts shall be used solely for payment of principal and interest on the bonds as to which these would otherwise be default: 2000 issue 2003 issue	63,366 7,227
3. Repair, Replacement and Improvement Account, these savings accounts are set aside in accordance with terms of the bond issues and actions by the Board of Directors. These funds are to be used for repairs, replacement, or improvements to the water system. If the amounts in the bond reserve accounts are not sufficient to pay on the bonds when due, these monies may be transferred for that purpose.	<u>68,851</u>
Total Restricted Cash	<u><u>\$ 385,770</u></u>

In accordance with GASB Statement No. 3, risk disclosure for bank deposits at June 30, 2004 are:

a. Insured or collateralized with securities held by the entity or by its agent in the entity's name.	\$ 100,000
b. Collateralized with securities held by the pledging financial institution's trust department of agent in the entity's name.	400,000
c. Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.)	<u>32,633</u>
Subtotal	\$ 532,633
Plus outstanding deposit	62
Less outstanding checks	<u>-</u>
Balance at June 30, 2004	<u><u>\$ 532,695</u></u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE C – CAPITAL ASSETS

A summary of the changes in the Authority's capital assets for the year ended June 30, 2004, is as follows:

	Balance at July 1, 2003	Additions	Reductions	Balance at June 30, 2004
Land	\$ 1,800	\$ -	\$ -	\$ 1,800
Structures and improvements	279,604	2,188,855	-	2,468,459
Wells and improvements	180,502	767,052	-	947,554
Pumping station	8,990	493,199	-	502,189
Water mains and hydrants	1,037,224	2,953,134	-	3,990,358
Reservoir	10,087	-	-	10,087
General equipment	-	1,946	-	1,946
Construction in progress	<u>7,654,524</u>	<u>2,452,063</u>	<u>6,393,925</u>	<u>3,712,662</u>
Total Plant	9,172,731	8,856,249	6,393,925	11,635,055
Less allowances for depreciation	<u>(299,425)</u>	<u>(159,662)</u>	<u>-</u>	<u>(459,087)</u>
	<u><u>\$ 8,873,306</u></u>	<u><u>\$ 8,696,587</u></u>	<u><u>\$ 6,393,925</u></u>	<u><u>\$ 11,175,968</u></u>

The reduction of \$6,393,925 in construction in progress has been reclassified to the various plant accounts. The Authority had an increase in plant assets of \$2,462,324 and no assets were disposed of during the year.

NOTE D – CONSTRUCTION IN PROGRESS

The Authority is expanding its water supply system. Construction of phase I started in July 2000 and was completed in August 2003 at a cost of \$6,393,925. Phase II and III were started in April 2003 and August 2003, respectively. The total cost of phases II and III has been estimated to be \$5,150,000 and \$7,000,000, respectively. Funding has been obtained from the USDA – Rural Development through a combination of loans and grants. Capital assets constructed under these projects will be owned and maintained by the Authority until the related debt has been retired (forty years). After the debt has been retired, the system's ownership will be turned over to the member municipalities involved.

NOTE E – DEFERRED LOAN COSTS

Expenses incurred in connection with the issuance of bonds are being amortized over the lives of the related debt as follows:

	Bond Issue		
	Series 2000	Series 2003	Total
Debt issuance costs	\$ 28,387	\$ 37,243	\$ 65,630
Amortization:			
Beginning balance	1,419	-	1,419
Current year	710	931	1,641
Accumulated balance	<u>2,129</u>	<u>931</u>	<u>3,060</u>
Ending Balance	<u><u>\$ 26,258</u></u>	<u><u>\$ 36,312</u></u>	<u><u>\$ 62,570</u></u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE F – LONG TERM DEBT

On October 5, 2000 and April 1, 2003, the Authority issued Water System No. 1 Limited Tax General Obligation Bonds, Series 2000 and 2003. Series 2000 and 2003 were issued for \$2,833,000 and \$1,339,000, bearing interest rates of 4.5% and 3.25%, respectively. They were both single issue bonds purchased by USDA - Rural Development. At June 30, 2004, the outstanding balances were \$2,720,000 for the series 2000 bond and \$1,323,000 for series 2003 bond.

These bonds are payable by the Authority from proceeds of contracted payments to be paid by the member municipalities. Principal payments on the series 2000 bond are due July 1 and interest is due July 1 and January 1 of each year. The series 2003 bond has principal payments due February 1 and interest due February 1 and August 1 of each year.

A summary of changes in long term debt for the year ended June 30, 2004 are as follows:

	Balance at July 1, 2003	Additions	Payments	Balance at June 30, 2004
Series 2000	\$ 2,750,000	\$ -	\$ 30,000	\$ 2,720,000
Series 2003	827,000	512,000	16,000	1,323,000
	<u>\$ 3,577,000</u>	<u>\$ 512,000</u>	<u>\$ 46,000</u>	<u>\$ 4,043,000</u>

The annual aggregate maturities for the bonds for years subsequent to June 30, 2004, are as follows:

Year ending June 30,	Series 2000		Series 2003		Total
	Principal	Interest	Principal	Interest	
2005	\$ 32,000	\$ 122,400	\$ 17,000	\$ 42,998	\$ 214,398
2006	33,000	120,960	18,000	42,445	214,405
2007	34,000	119,475	18,000	41,860	213,335
2008	36,000	117,945	18,000	41,275	213,220
2009	38,000	116,325	20,000	40,690	215,015
2010-2014	215,000	554,625	108,000	193,505	1,071,130
2015-2019	268,000	501,615	128,000	174,655	1,072,270
2020-2024	335,000	435,600	148,000	152,555	1,071,155
2025-2029	417,000	353,160	178,000	126,555	1,074,715
2030-2034	519,000	250,515	210,000	95,680	1,075,195
2035-2039	647,000	122,760	240,000	59,605	1,069,365
2040-2043	146,000	6,570	220,000	18,265	390,835
	<u>\$ 2,720,000</u>	<u>\$ 2,821,950</u>	<u>\$ 1,323,000</u>	<u>\$ 1,030,088</u>	<u>\$ 7,895,038</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE G – RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority has obtained coverage from a commercial insurance company. The Authority has comprehensive general liability coverage of \$2,000,000 per occurrence and \$4,000,000 in the aggregate and has obtained worker' compensation coverage.

All risk management activities are accounted for in the financial statements of the Authority. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Authority as of June 30, 2004, will not materially affect the financial condition of the Authority. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE H – COMMITMENTS AND CONTINGENCIES

In the normal course of construction projects, the Authority receives loan and grant funds from various federal and state agencies. These programs are subject to audit by agents of the lending and granting agencies, the purpose of which is to ensure compliance with conditions precedent to the awarding of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

NOTE I – RELATED PARTY TRANSACTIONS

1. Lease, Water Purchase, and Administrative Services

The Authority has lease agreements, water purchase agreements, and administrative service agreements with the member municipalities. Through these agreements, the Authority purchases water from the City of Wakefield and sells this water to Bessemer and Wakefield Townships. The Authority also transmits water on behalf of the City of Bessemer from the City's well field to the City. In addition, the Authority is responsible for the administration of various projects involving the development of water sources and distribution of the water to the various members for sale to their respective customers.

The Authority charges Bessemer and Wakefield Townships for water sold to them. Construction and related financing costs are allocated and billed by the Authority to the member municipalities. Charges for these services by the Authority are billed to the members based on percentages developed on a project by project basis. Revenues derived from these charges are use to pay costs of operations and debt retirement obligations.

Under terms of the lease agreements, the member municipalities are responsible to maintain the systems located in their respective communities. Ultimately, when the debts related to the various projects are paid, ownership of the assets of the Authority will be turned over to the communities in which they are located.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE I – RELATED PARTY TRANSACTIONS (continued)

2. Office Lease

On September 1, 2003, the Authority entered into an agreement with Bessemer Township (a member) to lease office space in the Township hall for use by the Authority. This is an operating lease whereby either party may terminate the lease at will. The lease calls for the Authority to pay a monthly rent of \$300 less credit for capital improvements made to the real estate. As of June 30 2004, the Authority paid \$9,238 toward improvements to the property.

3. Legal Fees

The Authority has retained the services of an attorney that served as an officer of a member municipality. The services provided include routine legal services as well as services related to construction projects. The Authority's Articles of Incorporation prohibit a member of the governing body of a constituent municipality from being an independent contractor of the Authority. However, the Authority solicited proposals for legal services and retained his services based on the lack of response by any other qualified firm. The total amount incurred for his services during the year ended June 30, 2004 was \$1,552 (consisting of \$156.00 for routine services plus \$1,396.00 for construction related services).

OTHER FINANCIAL INFORMATION

GOGEBIC RANGE WATER AUTHORITY
RAMSAY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2004

Federal Grantor Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Program Award Amount	Federal Expenditures
US Department of Agriculture:			
Direct Programs:			
Water and Waste Disposal Systems for Rural Communities:			
Loan program - Phase I	10.760	\$2,833,000	\$0
Grant program - Phase I	10.760	3,172,000	48,400
Loan Program - Phase II	10.760	1,339,000	512,000
Grant program - Phase II	10.760	2,961,000	1,059,400
US Department of Commerce:			
Economic Development Administration:			
Public Works and Development Facilities and Economic Adjustment Construction Grant:			
Grant funds administered by the US Department of Agriculture	11.307	850,000	850,000
Total Federal Expenditures			<u>\$2,469,800</u>

GOGEBIC RANGE WATER AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2004

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Gogebic Range Water Authority, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Expenditures in this schedule are in agreement with the amounts reported in the financial statements.

2. Loans Outstanding – Gogebic Range Water Authority had 2 outstanding bonds as of June 30, 2004. Both are held by the U.S. Department of Agriculture for funding provided for construction projects as follows:

Series 2000, issued \$2,833,000 with an outstanding balance at June 30, 2004.	\$ 2,720,000
Series 2003, issued \$1,339,000 with an outstanding balance at June 30, 2004.	<u>1,323,000</u>
Balance at June 30, 2004	<u><u>\$ 4,043,000</u></u>

3. Sub recipients – Of the federal expenditures presented in the schedule, Gogebic Range Water Authority, provided no federal awards to sub recipients.

4. Both federal programs (U.S. Department of agriculture and U.S. Department of Commerce) were selected as major programs, Type A using the risk-based audit approach and the 50% high-risk auditee coverage rule.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Chairman and Members of the Board
Gogebic Range Water Authority
Ramsay, Michigan

I have audited the financial statements of Gogebic Range Water Authority as of and for the year ended June 30, 2004, and have issued my report thereon dated June 8, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Gogebic Range Water Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Gogebic Range Water Authority's financial statements are free of material misstatement, I performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted other matters involving the internal control over financial reporting I have reported to Management of Gogebic Range Water Authority, in a separate letter dated June 8, 2005.

This report is intended solely for the information and use of management and member municipalities, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

June 8, 2005

DAVID TRACZYK

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Chairman and Members of the Board
Gogebic Range Water Authority
Ramsay, Michigan

Compliance

I have audited the compliance of Gogebic Range Water Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2004. Gogebic Range Water Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Gogebic Range Water Authority's management. My responsibility is to express an opinion on Gogebic Range Water Authority's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gogebic Range Water Authority's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Gogebic Range Water Authority's compliance with those requirements.

In my opinion, Gogebic Range Water Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control over Compliance

The management of Gogebic Range Water Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Gogebic Range Water Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be a material weaknesses.

This report is intended solely for the information and use of management and member municipalities, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

June 8, 2005

GOGEBIC RANGE WATER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2004

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Gogebic Range Water Authority.
2. There were no reportable conditions disclosed during the audit of the financial statements reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to financial statements of Gogebic Range Water Authority were disclosed during the audit.
4. There were no reportable conditions disclosed during the audit of the major federal award program reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for Gogebic Range Water Authority expresses an unqualified opinion.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were the U.S. Department of Agriculture C.F.D.A. Number 10.760, and U.S. Department of commerce CFDA, Number 11.307.
8. The threshold for distinguishing Type A programs was \$300,000.
9. Gogebic Range Water Authority was determined not to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

U.S. Department of Agriculture, CFDA No. 10.760 and U.S. Department of Commerce, CFDA No. 11.307.

None

GOGEBIC RANGE WATER AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year ended June 30, 2004

Department of Agriculture

Finding 03-01: Water and Waste Disposal Systems for Rural Communities, CFDA 10.760.

Condition: This finding indicated a questioned cost of \$10,304 incurred with a related party. The cost was questioned based on the Authority's Articles of Incorporation.

Current Status: This finding has been resolved. The cost was properly documented and justified. The related party relationship no longer exists.

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Chairman and Members of the Board
Gogebic Range Water Authority
Ramsay, Michigan

MANAGEMENT LETTER

In planning and performing my audit of the financial statements of Gogebic Range Water Authority for the year ended June 30, 2004, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control.

During the course of my audit, certain matters have come to my attention which I feel should be addressed by management. These matters are not considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, they are areas in which management may improve its accounting reporting system.

2004-1 Financial Reporting

Condition and Criteria: The financial reports during the year 2004 did not properly reflect the prior year (2003) corrections reflected in the year end adjusting entries.

Effect : The result of not correcting the amounts resulted in incomplete data reported on the monthly financial reports.

Recommendation: I recommend that Authority personnel receive proper training to assure that monthly financial reports are complete and accurate.

2004-2 Management Discussion and Analysis

Condition and Criteria: GASB 34 requires that management include a discussion and analysis of the annual financial statements. This data has not been provided.

Effect: This omission has resulted in the annual report being incomplete as recommended by GASB 34.

Recommendation: I recommend the Authority have its personnel properly trained to prepare the required data.

This letter is intended solely for the information and use of management and member municipalities, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

June 8, 2005